
Research

MARKETING STRATEGIES TO EXTRINSICALLY MOTIVATE TAX PAYERS IN PAKISTAN

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Abstract

This study tries to explore the appropriate marketing strategies that could motivate tax payers extrinsically resulting in willingness towards tax compliance. The study is qualitative in nature, based on highly unstructured and open ended interviews. The sample selected for the compilation of study included the business community holding valid National Income Tax Number (NTN), registered with the registration authorities. The qualitative data were processed in QSR Nvivo software that is developed for analyzing the qualitative information. Two codes were created resulting in nine codes including issues related to human resources, discrimination, threatening messages, prices of utilities, benefits, services, advertising, protection of copyrights and support for business. Based on the analysis of data, the study recommended marketing strategies that could result in motivating the tax payer extrinsically to enhance tax morale and facilitate tax compliance.

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Introduction

Tax is the most important source of revenue for any government. Without efficient and effective taxation system no government can execute important government services. However tax is something people always resist and are unwilling to pay. It is also found however in some countries where people pay tax willingly. Some of the countries like Sweden possess high tax morale and the tax payers willingly pay tax, and are not considered the tax rate as high. Different countries may need different policies and tactics to enhance tax morale to develop tax culture, however tax morale is dependent on many factors and it too varies from country to country. For instance tax morale is high in Japan, China and Sweden, and low in Philippines (Torgler, 2004).

Different studies found the strong association of tax morale with the factors, including nature of the government and democracy (Torgler, 2005), cultural differences (Alm, 2006), religiosity (Torgler, 2006), political system and trust in government (Pommerehne, 1994), shadow economy and institutional quality (Torgler, 2007), tax administration (Cummings, 2009), advertising, internal marketing and marketing strategies (Saeed, 2011).

As mentioned it is essential for any government to motivate tax payer extrinsically for tax compliance that may result in creating tax culture, however the issue is variation in the above mentioned factors associated with tax morale. There is strong association between the quality of government services and tax morale (Torgler, 2003). There is therefore a need to make the government services and public sector institutions customer centered through appropriate marketing strategies to extrinsically motivate tax payer that may directly result in high tax morale.

As tax is the money paid for the government services, and tax payer should be considered as customer of the government (Saeed,

2011), the selection and adoption of appropriate marketing strategies at the public sector institutions can motivate tax payers that are government customers (King, 2007). However there is a need of different marketing strategies to enhance tax morale in different cultures (Talukdar, 2002).

As Pakistan is among the countries with the lowest tax morale, this study made efforts to find appropriate marketing strategies for the tax collection authorities in Pakistan that can motivate the tax payers extrinsically and to develop tax culture in the country that could be helpful for the economy.

Literature Review

Motivation is a reason or reasons for acting or behaving in a particular way (Pinder, 2014). It is the main driving force that leads an individual towards certain action. Therefore organizations make efforts to motivate consumers and individuals towards their products and services to use their products or to behave in a particular way (Dörnyei, 2013). There are two types of motivation intrinsic motivation and extrinsic motivation (Kong, 2012). Intrinsic motivation is related to the inner feeling of an individual that drive him or her towards a particular action, however extrinsic motivation is a driving force in an external environment that drive an individual to perform some act (Reiss, 2012). To influence a behavior of an individual any organization, public or private need to consider both intrinsic and extrinsic motivation, as both factors plays an important role that influence the behavior of an individual (Levesque, 2012).

Private sector organizations in Pakistan understand the importance of intrinsic and extrinsic motivation. However public sector organizations are not utilizing marketing strategies that influence an individual behavior in full zeal to create a favorable image of an organization in the mind of an individual. Public sector organizations including organizations that are associated with the collection of

taxes need to understand the importance of extrinsic motivation to enhance the tax morale of tax payer (Buelens, 2007; Roth, 1989).

Pakistan is among the countries with the lowest tax morale (Li, 2010). Tax is the price for government services and this price has to be associated and justified by the government services. If the price is high and product or service is poor the result will always be negative motivation and unacceptability of product (Peter, 1999). The problem with organizations related with the collection of taxes is that they cannot properly market taxation. Marketing and advertising strategies of FBR in Pakistan are usually based on threatening the tax payers to pay tax, rather than justifying tax and adding value to the tax through appropriate marketing strategies.

Marketing can play a vital role in developing tax culture through appropriate marketing strategies that can motivate tax payers extrinsically (Saeed, 2011). To enhance tax morale there are numerous marketing strategies, besides threatening the tax payer to pay tax. Different studies found that the tax morale is higher in the countries where people understand the taxation system, and are sure of its just utilization (Saeed, 2011). Therefore marketing can motivate the tax payer through creating awareness of the benefits associated with the tax. It was found in the same study that most of the people in Pakistan even don't know about their rights and are not sure about the services the government is providing to the tax payers.

Marketing makes the services efficient and adds value to it (Ravald, 1996; Wright, 2014), as a marketing strategy, making the tax filing online with user friendly website can also add value to the services (Hung, 2006). Furthermore as mentioned earlier tax morale cannot be separated from the rest of government services, therefore there is need to add value in public services through marketing (Butler, 1995).

Butler (1995), argues that the behavior of citizens towards the public sector institutions are changing and they are expecting high quality of services and efficiencies as in the case of private sector commercial organizations. This demanding shift in the behavior of consumers of services make the adaptation of marketing strategies more important for public sector institutions to be adopted (Bean, 2012). Therefore the association of tax morale with the marketing strategies including customer services, internal marketing, removal of red tape that make the service efficient, should be given high importance (Scott, 2005; Tuck, 2013; Inkpen, 2006).

Associating customer service as an appropriate marketing strategy that could affect tax morale Coleman (1996), concluded that enhancing customer services related to tax, provide proper information to the tax payers and make the documents easy to understand results in increased volunteer tax filing. Similarly advertising related to create awareness about tax is associated with tax morale through different studies, where tax is associated with the duty of a citizen as a countryman in advertising messages (Ottone, 2015; Luttmer, 2014).

Objectives of the study

Objectives of this study is to find and recommend appropriate marketing strategies for Federal Board of Revenue (FBR), and organizations that are involved in the collection of taxes to extrinsically motivate current and potential tax payers through effective marketing strategies.

Significance of the study

Tax is the main source of revenue for any government. The government should understand that it is the price for government services. Tax compliance is closely related to the tax morale and tax culture. To enhance tax morale, the government should understand

that the tax should not be separated from the government services. The significance of this study is therefore to let the government understand the main issues that are playing its role in motivating or demotivating the potential tax payers to evade or compliance tax. The study is also significant as it also recommends marketing strategies to the Federal Board of Revenue in Pakistan that can results in developing a tax culture in the country through extrinsically motivating the tax payer.

Sample

Ritchie (2013), argues that in studies that are qualitative in nature, sample size is not that important as the selection of the respondents who are qualified, knowledgeable and related enough to shed light on the particular topic. For qualitative studies the respondents should be experts and knowledgeable in the relevant field of study (Marshall, 1996). The study further elaborated that the sample size is dependent on the parameters of phenomenon under study. Pope (2000), recommends that qualitative studies are not designed on the parameters of statistical generalizability, therefore the sample size should be based on research questions and analytical requirements. The study further argued that in some cases a single case study may be appropriate.

Based on the studies related to the sample size in empirical studies, a sample of eleven respondents was selected for a qualitative highly unstructured and open ended interview. To ensure the qualitative information, it was made sure that the interviewees were the representatives of the population directly in contact with the tax collection authorities. To ensure that all the respondents selected were the businessmen, with their entities registered with FBR, and possess valid National Income tax number (NTN). To ensure the quality of the information the sample also included one lawyer specialized in dealing tax cases for the last twenty two years.

To enhance the quality of information, two tax consultants were also included in the sample providing services as tax consultants for more than ten years. Furthermore an in-depth interview was

conducted with Dr. Faisal Bukhari, serving Deputy Collector at Federal Board of Revenue Pakistan. To minimize the bias, including these thirteen respondents were selected for in-depth interview from Karachi as Karachi is the largest city and considered a hub of economic activity and financial capital of Pakistan; however eight respondents were selected from other major cities of Pakistan, including Faisalabad, Lahore, Islamabad, and Peshawar.

Research Methodology

This study is qualitative in nature. A sample of Twenty one people, who were the owners of the businesses, possessed valid National Tax Number (NTN) and were the members of Karachi Chamber of Commerce and industry (in case of Karachi), and from the other major cities of Pakistan were interviewed. The sample also included the lawyer involved in dealing income tax cases, two tax consultants and a serving Deputy Collector of Federal Board of Revenue, Pakistan. The interview protocol consisted open ended highly unstructured questions. The interviews were conducted at the facilities of interviewees and lasted from 25 to 45 minutes. A main reason behind this methodology is to have an open discussion with the respondents who are actually and actively involved in the process of taxation in Pakistan and deals with the personnel associated with the FBR.

Open ended and unstructured questions included, information related to the taxation system in Pakistan, factors that motivates and demotivates the tax payer, marketing strategies of Federal Board of Revenue, and recommendations of appropriate marketing strategies for FBR. The reasons behind these questions were to understand the pain points of the business community related to the current tax scenario in Pakistan and to find what the business community recommends? The open ended and unstructured questions provided an opportunity to know the main issues responsible for poor tax morale of the business community and the areas where Federal Board of Revenue should concentrate to improve

the tax morale through appropriate marketing strategies that could result in motivating the current and potential tax payers extrinsically.

Analysis and results

As the study was qualitative in nature, therefore Nvivo software was used to analyze the qualitative data. The interviews information was processed in the QSR Nvivo, to find the relevant codes and to construct nodes in different cases. The following table shows the nodes and codes created through the interviews of twenty one cases:

Question	Node	Codes
View about the current taxation policy of Pakistan	Pakistan Taxation policy	<ul style="list-style-type: none"> • HR Issues • Discrimination • Threatening messages • Red tape and corruption • Tax evasion by political and opinion leaders. • Tax promotion strategies of the current government • Increasing tax rather than widening the tax base
Recommendation of marketing strategies to FBR	Marketing Strategy recommendations	<ul style="list-style-type: none"> • Price of utilities • Focus on Benefit • Services • Advertising • protection of copyright • Business development and service support

Pakistan Taxation policy

As the table indicates the respondents identified issues related to human resources, discrimination and threatening messages of FBR to compliance tax in response to the first question of interview protocol. Although only one respondent raised the issue of human resources but also mentioned that most of the tax collectors in FBR are qualified MBBS doctors who qualified the civil services exam and are recruited for the post that is not their field.

As extrinsically de-motivational factor for tax payers, the respondents repeatedly pointed the discrimination of funding different projects in Lahore only. The respondents were convinced that the only focus of the government is Lahore. One of the respondent sarcastically commented that the government took all the resources of the country to Lahore and should take this sea to Lahore through pipes as well.

The respondents were convinced that the tax compliance messages (personal and advertising) from the government is threatening, that demotivates them however one of the respondent praised the behavior of the representative of the FBR who considered the business situations of his firm and praised that the tax policy of the government is based on reality.

Motivational and De-motivational factors

The respondents considered shoddy government service as the most de-motivational factor. As the literature review found the government service associated with tax morale is not only specific to services provided by Federal Board of Revenue, but all the services rendered by the public institutions affect tax morale. Similarly the interviews revealed poor quality of government services in Pakistan related to any sector is the main issue that is mainly responsible for poor tax morale in the country. Along with the shoddy government services mal practices and bribes is another extreme de-motivational factor. Commenting on the government services and supports one of the respondents in discussion quoted:

“...Have you noticed the condition of the road you travelled on and reach here? What is the guarantee that the condition of the roads in industrial estate will improve when nobody evade tax Korangi industrial estate is the highest tax paid industrial estate of the country, when the industrialists were

convinced that government will not construct road at specific area the industrialists decided to construct it themselves ... for which they pay bribes.... Is there anything more de-motivational factor than this?"

The respondents praised some of the strategies that government implemented and considered them motivating, like the online self-assessment forms for tax compliance, however, the interviews also revealed that the FBR should promote it and should make further efforts to make the online services and tax payments easy. Considering online activities as motivational factor one of the respondent, who is one of the largest importer of electronics quoted:

"Limiting human interaction will achieve dual objective (that is associated with tax morale) one it will make things fast and bypass red tape, secondly it will discourage corruption...."

Related to the threatening advertising messages through different media, the respondents considered them as very demotivating, and praised the recent shift in advertising from threatening to convince the tax payer about the benefits of taxes. On the other hand the need for increasing the frequency of such type of motivational messages was also recommended.

The tax evasion issue of famous political leaders was also raised by respondents, as one of the most demotivating factor. One of the respondents in discussion also pointed out the interview of Hilary Clinton in which she asked the Pakistan government not to ask for aid but the make efforts to widen tax net and to make rely on country's own resources. Commenting on this one of the respondent commented like:

".... This is only possible if the political leaders set an example through contributing their due share... as opinion leader how can they ask me to pay tax when they don't pay themselves..."

Recommendation of the Marketing Strategies for FBR

The respondents were asked to recommend the marketing strategies for FBR that could enhance tax morale to develop tax culture. The table indicates the codes generated through the interviews. All of the respondents indicated that the tax morale is dependent on the government services and also mentioned that the services are not specific to the services of FBR alone, but the services of other government institutions also directly affect the tax morale therefore tax compliance and tax morale should not only be tied to the services of FBR.

The respondents recommended that the advertising focus of the FBR should be changed from threatening to benefit oriented. The respondents were convinced that if they witness the beneficial development projects for their businesses they definitely will be more than willing to pay tax.

Some of the respondents are convinced that they will be highly motivated and will not hesitate to pay more if the government help protect their business from counterfeited products, and plan properly that could result favorably in their business development and facilitation. Some of the interviewee rated this issue very important as counterfeited products are hurting their businesses and goodwill.

Recommendations of the study

The study recommends on the basis of interviews with the most relevant people that the government should focus on the following issues to motivate the tax payers and to develop tax culture:

1. Karachi being the largest city and contributes more in the economy deserve more developmental projects and services that could facilitate trade and industry.
2. Government should make sure to protect the business community trademarks and should work enthusiastically to eliminate the counterfeited products from shadow economy.
3. There should be discrimination in the services and facilitation from the government for the tax payers that pay their taxes and are fairly contributing their due share. The facilitation

may be in the shape of participation in the trade shows arranged by trade development authority or in the shape of subsidized advertising of the products and services in international markets. However the current government differentiated tax payers through different promotional strategies, but it is recommended that the tax payers should also be divided into different market segments and should be treated differently, as a serious marketing strategy.

4. As more than 80% of the tax revenue is based on indirect tax, it is therefore recommended that the government should focus on indirect taxes, like sales tax and should abolish the direct tax once for all. This may at-least results in attracting foreign direct investment and therefore may results providing more opportunities of generating revenue through indirect tax.
5. The focus of the tax advertising should be benefit, rather than threatening advertising.
The FBR and the government should change the style of its advertising messages, for example for the support of Metro project in Lahore and Islamabad, the government should convince public that this project could reduce the cost of imports of fuel and vehicles that could help the economy along with the excellent services to the citizens.
6. Tax payers are not only motivated by the direct services of FBR in the shape of e-services or one window operation, but their motivation is also affected by the services of other public services institutions. Therefore other government institutions should also bring favorable change in their services and should be customer oriented.
7. However the FBR do practice some marketing strategies but unfortunately not as professionally as in the case of private sector commercial organizations. There is a need to establish a full functional department of marketing looking after the customer satisfaction and customer orientation that are the most important marketing factors that motivate the consumers, and in their case the tax payers.

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